

BEFORE THE
POSTAL REGULATORY COMMISSION

Annual Compliance Report, 2016

:
: Docket No. ACR2016
:

**SECOND MOTION OF UNITED PARCEL SERVICE, INC.
FOR ISSUANCE OF INFORMATION REQUEST TO
THE UNITED STATES POSTAL SERVICE**

(January 26, 2017)

In accordance with 39 C.F.R. § 3050.11(c), United Parcel Service, Inc. (“UPS”) respectfully requests that the Presiding Officer issue an Information Request to the Postal Service to obtain answers to the appended set of questions. UPS first moved for issuance of an information request on January 19, 2017. See United Parcel Service, Inc.’s Motion for Issuance of Information Request to the United States Postal Service, Dkt. No. ACR2016 (Jan. 19, 2017). After further consideration of the filings and library references, UPS has concluded that a second set of questions is necessary to unravel some of the complex costing practices that underlie the Annual Compliance Report and to determine whether there is a sound explanation for seemingly anomalous results.

Answers to these questions will serve the important goal of providing additional transparency regarding Postal Service costing practices to the public and to interested parties and may point to ways in which those practices can be improved or by which apparent anomalies can be addressed. As the Commission has observed, the Postal Accountability and Enhancement Act “relies on public transparency . . . to achieve its goal of Postal Service accountability.” Second Notice of Proposed Rulemaking to

Establish Procedure for According Appropriate Confidentiality, Order No. 194, Dkt. No.
RM2008-1 (March 20, 2009) at 2.

Respectfully submitted,

UNITED PARCEL SERVICE, INC.,

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PROPOSED QUESTIONS:

1. Referring to the Revenue Pieces and Weight reports for Q4 FY2015 and Q1 FY2016:
 - a. Please confirm that total mail volume (piece count) was 4.9 billion pieces (or 13%) higher in Q1 FY2016 than it was in Q4 FY2015.
 - b. Please confirm that total mail weight was approximately 1.2 billion pounds (or 22%) more in Q1 FY2016 than it was in Q4 FY2015. If not confirmed, please provide the accurate difference in pounds and percentage increase.
 - c. Please confirm that, by weight, competitive mail accounted for approximately 31.5% of total mail in Q4 FY2015, and approximately 36.7% of total mail in Q1 FY2016. If not confirmed, please provide the correct shares in each quarter.
 - d. Please confirm that, by weight, competitive mail accounted for 60% of the quarter-to-quarter increase quantified in question 1(b). If not confirmed, please provide the correct competitive share of the pound increase (defined as the quarterly change in competitive pounds divided by the quarterly change in total pounds).
 - e. Please confirm that parcel select alone accounted for 43% of the quarter-to-quarter increase quantified in question 1(b). If not confirmed, please provide the correct parcel select share of the pound increase (defined as the quarterly change in competitive pounds divided by the quarterly change in total pounds).
 - f. Please state whether the Postal Service agrees that the majority of the quarter-to-quarter differences identified in this question are due to seasonal factors, as opposed to a secular trend.
2. Please explain in detail whether and how the costing principles and methodologies underlying cost attribution differ in Q1, relative to quarters 2 through 4.

3. With respect to non-career employees:
 - a. Please confirm that in October of 2015 the Postal Service reported in its Preliminary Financial Information *Unaudited) that it employed 130,087 non-career employees. Please confirm also that in December of 2015 the Postal Service reported in its Preliminary Financial Information *Unaudited) that it employed 154,231 non-career employees. Finally, please confirm that in January of 2016 the Postal Service reported in its Preliminary Financial Information *Unaudited) that it employed 132,900 non-career employees.
 - b. Please explain what that the non-career employee figures of 130,087, 154, 231, and 132,900 means. Are the figures full-time equivalents, actual number of non-career employees as of some point in time (if so, what point?), total number of individuals employed at any time during the period, or a mix?
 - c. Please identify where the costs associated with the approximately 21,000 non-career employees that were temporarily employed between October of 2015 and January of 2016 appear in the cost reports filed in ACR 2016.
 - d. Please explain how and to what extent these costs have been attributed to individual products.
4. Referring to USPS-FY16-32 FY2016 CRA "B" Workpapers (Public Version) and analogous files from previous years:
 - a. Please confirm that there are three types of special purpose routes (SPR): 86 ("Exclusive Parcel Post"); 87 ("Collection") and 98 ("Other").
 - b. For each such route type, please describe the purpose of the routes in that category as well as how they are managed, including the frequency with which they are used, their similarity to or differences from regular city carrier routes, and other factors that the Commission might deem relevant to evaluating the cost attribution associated with special purpose routes.
 - c. Please confirm that neither the public library references filed in the ACR2016 docket nor public library references in other dockets contain a

quarterly breakdown of cost accrual for each type of SPR. If not confirmed, please specify a public source where a quarterly breakdown is documented. If confirmed, please provide a quarterly breakdown of costs for each route type.

- d. Please confirm that the “street costs” portion of SPR types 86, 87, and 98 are treated identically in terms of ultimate cost attribution. If not confirmed, please describe any differences between the cost attribution practices for the three SPR types.
5. Referring specifically to the costs in SPR type 86 (“Exclusive Parcel Post”):
- a. Please explain the purpose and usage of this type of SPR. In particular, specify the extent to which the routes are regular, following a pre-specified sequence and schedule, and the extent to which they are used on an as-needed basis in response to variation in mail volumes. Please also specify the extent to which these costs are accrued on various days of the week.
 - b. If and when SPRs follow a pre-specified route, such as an existing letter route, at what share (on average) of the delivery points on that route does the letter carrier stop?
 - c. Please confirm that between FY2008 and FY2013, the total accrued costs for SPR type 86 never exceeded \$83 million in any single year. If not confirmed, please provide the single-year maximum during that 6-year period for total accrued costs on SPR type 86.
 - d. Please confirm that in FY2016, the total accrued costs on SPR type 86 were nearly \$187 million. If not confirmed, please provide the total accrued costs on SPR type 86 in FY2016 to the nearest million.
 - e. Please confirm that between FY2008 and FY2013, the share of total accrued costs on special purpose routes that was accrued on type 86 (“Exclusive Parcel Post”) SPRs did not exceed 17.2% in any given year. If not confirmed, please provide the single-year maximum during that 6-year

period for type 86 total accrued costs as a share of total SPR accrued costs.

- f. Please confirm that in FY2016, the total accrued costs on SPR type 86 accounted for 34.6% of total accrued SPR costs. If not confirmed, please provide the type 86 total accrued costs as a share of total SPR accrued costs in FY2016.
6. Please describe any and all changes in methodology or costing principles relevant to the attribution of SPR costs in the past five years.
7. Please describe the handling and processing that occurs between the time when drop shipped parcels are deposited at destination delivery units and the time when carriers depart from the delivery unit to deliver these parcels to addressees.
 - a. In addition, please identify where the costs associated with this handling and processing appear in the cost reports filed in ACR 2016; and
 - b. Please explain how and to what extent these costs have been attributed to individual products.
8. With regard to City Carrier Assistants:
 - a. Please confirm that in its FY2016 Annual Report to Congress the Postal Service reported that it employed 40,436 City Carrier Assistants.
 - b. Please identify where the costs associated with these employees appear in the cost reports filed in ACR 2016; and
 - c. Please explain how and to what extent these costs have been attributed to individual products.
9. Referring to the Public Cost Segment and Component Reports (specifically the costs in C/S 3 Clerks and Mailhandlers) and the Public Revenue, Pieces, and Weight Reports from FY15 and FY16:

- a. Please confirm that attributable cost per piece in C/S 3 for domestic competitive mail decreased by 8.7% from FY15 to FY16. If not confirmed, please provide the percentage increase or decrease from FY15 to FY16 in C/S 3 attributable cost/piece for domestic competitive products.
 - b. Please confirm that attributable cost per piece in C/S 3 for market dominant package services increased by 3.7% from FY15 to FY16. If not confirmed, please provide the percentage increase or decrease from FY15 to FY16 in C/S 3 attributable cost per piece for market dominant package services.
 - c. Please confirm that attributable cost per piece in C/S 3 for periodicals increased by 1.9% from FY15 to FY16. If not confirmed, please provide the percentage increase or decrease from FY15 to FY16 in C/S 3 attributable cost per piece for periodicals.
 - d. Please provide an explanation for the differences in the year-over-year changes in attributable clerks and mailhandlers costs per piece. In other words, why did attributable clerks and mailhandlers costs per piece for domestic competitive products decrease substantially over this 2-year period, while those for **all** market dominant classes of mail either decreased by a smaller margin or increased? Please list more than one reason, if applicable.
10. Referring to the Public Cost Segment and Component Reports (specifically the costs in C/S 14 Transportation) and the Public Revenue, Pieces, and Weight Reports from FY14, FY15, and FY16:
- a. Please confirm that attributable cost per piece in C/S 14 for domestic competitive mail decreased by 13.7% from FY14 to FY16. If not confirmed, please provide the percentage increase or decrease from FY14 to FY16 in C/S 14 attributable cost per piece for domestic competitive products.
 - b. Please confirm that total attributable cost per piece in C/S 14 for periodicals increased by 21.6% from FY14 to FY16. If not confirmed,

please provide the percentage increase or decrease from FY14 to FY16 in C/S 14 attributable cost per piece for periodicals.

- c. Please confirm that total attributable cost per piece in C/S 14 for first-class mail increased by 17.0% from FY14 to FY16. If not confirmed, please provide the percentage increase or decrease from FY14 to FY16 in C/S 14 attributable cost per piece for periodicals.
- d. Please provide an explanation for the differences in the year-over-year changes in attributable transportation costs per piece. In other words, why did attributable transportation costs per piece for domestic competitive products decrease substantially over the last two years, while those for several market dominant classes of mail either decreased by a smaller margin or increased? Please list more than one reason, if applicable.

11. Referring to the Public Cost Segment and Component Reports (specifically the costs in C/S 7 City Delivery Carriers – Street Activity) and the Public Revenue, Pieces, and Weight Reports from FY15 and FY16:

- a. Please confirm that attributable cost per piece in C/S 7 for domestic competitive mail decreased by 10.4% from FY15 to FY16. If not confirmed, please provide the percentage increase or decrease from FY15 to FY16 in C/S 7 attributable cost per piece for domestic competitive products.
- b. Please confirm that total attributable cost per piece in C/S 7 increased for first-class mail, standard mail, and periodicals from FY15 to FY16, with the increases ranging from 2.9% to 5.0%. If not confirmed, please provide, for each of these three classes, the percentage increase or decrease from FY15 to FY16 in C/S 7 attributable cost per piece.
- c. Please confirm that total attributable cost per piece in C/S 7 for market dominant package services decreased 6.7% from FY15 to FY16. If not confirmed, please provide the percentage increase or decrease from FY15 to FY16 in C/S 7 attributable cost per piece for market dominant package services.

- d. Please provide an explanation for the differences in the year-over-year changes in attributable C/S 7 costs per piece. In other words, why did attributable C/S 7 costs per piece for domestic competitive products decrease substantially between FY15 and FY16 while those for market dominant classes of mail either decreased by a smaller margin or increased? Please list more than one reason, if applicable.
12. Referring to the Public Cost Segment and Component Reports (specifically the costs in C/S 11 Custodial and Maintenance Services and C/S 18 Administration and Area Operations) and the Public Revenue, Pieces, and Weight Reports from FY15 and FY16.
- a. Please explain why, on a per piece basis, Custodial and Maintenance Service attributable costs for domestic competitive mail decreased by 12.0% from FY15 to FY16 while they either decreased less or increased for **all** market dominant classes of mail, including a 2.3% increase for periodicals. Please list more than one reason if applicable.
 - b. Please explain why, on a per piece basis, Administration and Area Operations attributable costs for domestic competitive mail decreased by 17.9% from FY15 to FY16 while they decreased much less (between 9.2% and 10.1%) for **all** market dominant classes of mail. Please list more than one reason if applicable.
13. Referring to the Public Cost Segment and Component Reports (LR 2) and the Public Revenue, Pieces, and Weight Reports (LR 42) from FY14, FY15, and FY16.
- a. Please confirm that on a per-pound basis, the change in total attributable costs by mail class from FY14 to FY16 is as follows:
 - i. a 4.1% decrease for first-class mail;
 - ii. a 7.9% increase for standard mail;
 - iii. a 5.5% increase for periodicals;
 - iv. a 4.2% increase for package services; and

v. a 23.2% decrease for competitive products.

If not confirmed, please provide the correct percentage change from FY14 to FY16 in total attributable costs per pound, by class.

- b. Please provide an explanation for the differences in the changes over the 2-year period in total attributable cost per pound. In other words, why did total attributable costs per pound for domestic competitive products decrease substantially over the last two years, while those for all other classes of mail, including market dominant package services, decreased less or increased over that same time period? Please list more than one reason if applicable.